

ZOOM TECHNOLOGIES INC
Form 8-K
September 28, 2009

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

September 22, 2009
Date of Report (date of Earliest Event Reported)

Zoom Technologies, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

0-18672
(Commission File No.)

51-0448969
(I.R.S. Employer Identification No.)

207 South Street
Boston, Massachusetts
(Address of principal executive offices and zip code)

(617) 423-1072
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed from last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation to the registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Form 8-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These include statements about the Registrant's expectations, beliefs, intentions or strategies for the future, which are indicated by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "the Registrant believes," "management believes" and similar words or phrases. The forward-looking statements are based on the Registrant's current expectations and are subject to certain risks, uncertainties and assumptions. The Registrant's actual results could differ materially from results anticipated in these forward-looking statements. All forward-looking statements included in this document are based on information available to the Registrant on the date hereof, and the Registrant assumes no obligation to update any such forward-looking statements.

Item 2.01 Completion of Acquisition of Assets

Item 3.02 Unregistered Sale of Equity Securities

Item 5.01 Changes in Control of Registrant

Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

CONSUMMATION OF THE MERGER WITH GOLD LION HOLDING LIMITED AND SPIN-OFF OF ASSETS

On January 28, 2009, (and later amended on May 12, 2009) Zoom Technologies, Inc. ("Zoom" or the "Registrant") entered in a share exchange agreement to acquire all the outstanding shares of Gold Lion Holding Limited, a company organized and existing under the laws of the British Virgin Islands ("Gold Lion"). In connection with the share exchange agreement, the Registrant agreed to spin off its then-current business to its stockholders, by distributing and transferring all assets and liabilities to subsidiary and issuing a dividend to its stockholders as further described below.

The parties to the share exchange agreement were: (1) Zoom Technologies, Inc., (2) Tianjin Tong Guang Group Digital Communication Co., Ltd., ("TCB Digital") a company organized under the laws of the People's Republic of China, ("PRC"); (3) Zoom Telephonics, Inc., or Zoom Telephonics, a wholly owned subsidiary of Zoom; (4) Gold Lion, (5) Lei (Leo) Gu, a citizen of the PRC; and (6) Songtao Du, a citizen of the PRC.

Gold Lion owns 100% of the outstanding capital stock of Jiangsu Leimone Electronics Co., Ltd., ("Jiangsu Leimone"), a foreign investment enterprise organized under the laws of the PRC that engages in the manufacturing, research and development, and sales of electronic components for 3rd generation mobile phones, wireless communication circuitry, GPS equipment, and related software products. Jiangsu Leimone owned 51.03% of the outstanding capital stock of TCB Digital that the Registrant acquired on September 22, 2009. Gold Lion also owns 100% of Profit Harvest Corporation Ltd, ("Profit Harvest"), which is a marketing and sales company organized and existing under the laws of Hong Kong.

Mr. Gu owns 70.6% of the outstanding capital stock of Gold Lion and holds an option indirectly to acquire an additional 28.97% of the outstanding capital stock of TCB Digital.

Mr. Du owns 29.4% of the outstanding capital stock of Gold Lion, which was pledged to Mr. Cao Wei.

TCB Digital is a high technology company engaged in electronic and telecommunication product design, development, and manufacturing. TCB Digital started its business in 1999 and was originally established as an Electronic Manufacturing Service (EMS) factory for mobile phone vendors. TCB Digital was Motorola's first

independent outsource manufacturing vendor responsible for producing Motorola mobile phones in China. Moreover, TCB Digital was the first EMS factory in China receiving Motorola's International Quality Product and Qualification certificate. Since 2004, TCB Digital developed and produced GSM and CDMA mobile phones, wireless data modules and GPS equipment. TCB Digital is headquartered in Tianjin, China. TCB Digital's two main business operations are EMS for Original Equipment Manufacturer (OEM) customers and the design and production of mobile phone products.

TCB Digital offers high quality and comprehensive EMS to both domestic and global customers, including, Samsung, Tianyu, CCT, Danahar and Spreadtrum. TCB Digital's primary products include mobile phones, wireless telecommunication modules, digital cameras, cable TV set-top boxes and GPS equipment. In addition, TCB Digital has developed various state-of-the-art mobile phones and Smartphones based on both of the main network technologies: Global System for Mobile Communications, or GSM, and Code Division Multiple Access, or CDMA. Presently, TCB Digital markets its mobile phone products through distributors in China and also supplies GSM and CDMA mobile phones to major customers, including China Mobile Communications Corporation, or CMCC, China UNICOM and China Telecom. See "Information about TCB Digital" for more information.

On September 22, 2009, pursuant to the share exchange agreement and the approval of the majority of the stockholders of the Registrant, the Registrant acquired from the Gold Lion shareholders 100% of Gold Lion in exchange for 4,225,219 shares of the Registrant's common stock. The result of this issuance is that the former Gold Lion shareholders own approximately 69.3% of the outstanding stock of the Registrant. As discussed above, Mr. Gu holds an option to acquire an additional 28.97% of the outstanding capital stock of TCB Digital. Pursuant to the share exchange agreement and the approval of the majority of the stockholders of the Registrant, we have agreed to provide Mr. Gu the option to exchange the additional 28.97% interest in TCB Digital for the issuance of an additional 2,402,576 shares of our common stock.

Upon the closing of the acquisition, the officers of the Registrant are Leo Gu – Chief Executive Officer and Anthony K. Chan – Chief Financial Officer. The members on the board of directors of the Registrant are Leo Gu, Frank Manning, Augustine Lo, Kit H. Choy and Chang Shan.

Approximately ten days following the closing of the merger, the Registrant intends to issue a dividend consisting of 100% of the issued and outstanding capital stock of Zoom Telephonics to its stockholders of record immediately prior to the closing. We refer to this as the “spin-off.” In connection with the spin-off, the Registrant distributed and transferred all of its current and future assets and liabilities related to the business of Zoom prior to the closing of the merger to Zoom Telephonics, subject to certain licensing rights discussed below. Zoom's stockholders immediately prior to the closing would retain their existing shares in Zoom and would also receive an equal number of new shares in Zoom Telephonics.

After the merger and the spin-off, the Registrant and Zoom Telephonics each will be independent companies. We expect, but cannot guarantee, that Zoom Telephonics' common stock to be traded on the OTC Bulletin Board.

TCB Digital and Zoom Telephonics will enter into a license agreement granting TCB Digital licensing rights for “Zoom” and “Hayes” trademarks for certain products and geographic regions. Zoom and Zoom Telephonics have also entered into a separation and distribution agreement that allocates responsibility for obligations arising before and after the spin-off, including, among others, obligations relating to taxes.

Our former directors, Frank Manning and Peter Kramer, entered into founder lock-up agreements pursuant to which they will agree that during the one-year period commencing on the date of closing that each will not sell, transfer, assign, pledge or hypothecate, in any calendar month, greater than 3% of the shares of our common stock sold in the previous four calendar weeks.

Corporate Overview

We were incorporated in the state of Delaware under the name Zoom Technologies, Inc. Up until the closing date of the merger, we conducted our business through our operating subsidiary, Zoom Telephonics, Inc. Zoom Telephonics, Inc. was originally incorporated in New York in 1977 and changed its state of incorporation to Delaware in 1993. Up until the Closing Date, our business was in the design, production, marketing, sales, and support of broadband and dial-up modems, Voice over Internet Protocol or "VoIP" products and services, Bluetooth® wireless products, and other communication-related products.

In September 2009, the transactions as described above were approved by a majority of our stockholders and completed, resulting in a change on control.

In connection with the merger with Gold Lion, and the spin-off of Zoom Telephonics, Inc. the historical financial statements of Gold Lion will be the financial statements of the Registrant, and the business of the Registrant consists solely of the business of Gold Lion. The risks factors set forth on page 4 regarding our business relates to risks of

Gold Lion.

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RISK FACTORS

You should carefully consider the following risk factors, together with all of the other information included in this current report on Form 8-K.

In assessing these risks, you should also refer to the other information included in current report, including the consolidated financial statements and the accompanying notes. You should note that Zoom would become a holding company with substantial operations in the PRC. As a result, Zoom would be subject to legal and regulatory environments that differ in many respects from those of the United States. Zoom's business, financial condition or results of operations could be affected materially and adversely by any of the risks discussed below.

Risks Related to Gold Lion's Business

Gold Lion's ownership of businesses, inclusive of TCB Digital, Jiangsu Leimone and Profit Harvest (collectively "Gold Lion Group") including sales, results of operations, and reputation could be materially adversely affected if it fails to efficiently manage its manufacturing operations without interruption, or fails to ensure that its products meet the expectations of its distributors and end-user customers.

Operation of Gold Lion Group requires successful execution of complex manufacturing processes. The disruption of any of these could interrupt its revenue generation and have a material and adverse effect on Gold Lion Group's relationships with distributors and end-user customers, TCB Digital and Jiangsu Leimone's brand names, and its financial performance. TCB Digital and Jiangsu Leimone's manufacturing operations involve raw material and component sourcing from third parties, internal assembly processes, and distribution processes. These operations are modified on a regular basis in an effort to improve manufacturing and distribution efficiency and flexibility. Gold Lion Group may experience difficulties in coordinating its supplies of components and raw materials to meet the demand for its products, increasing or decreasing production at its facilities in response to demand, adopting new manufacturing processes, finding a timely way to develop the best technical solutions for new products, or achieving manufacturing efficiency and flexibility. Gold Lion Group may experience delays in adjusting or upgrading production at its facilities when it introduces new models, delays in expanding manufacturing capacity, failure in its manufacturing processes, or failure by its business partners to adequately perform the services it has outsourced to them, which in turn may have a material adverse effect on Gold Lion Group's sales and results of operations. In addition, a failure or an interruption could occur at any stage of Gold Lion Group's product development, manufacturing and delivery processes, resulting in products not meeting the expectations of its distributors and end customers, which could have a material adverse effect on Gold Lion Group's sales, results of operations, and reputation.

Gold Lion Group's results of operations, particularly its profitability, may be materially adversely affected if it does not successfully manage price erosion and is not able to manage costs related to its products and operations.

Selling price erosion is a characteristic of the mobile handset and electronics industries, and the products offered by Gold Lion Group are subject to natural price erosion over time. If Gold Lion Group is not able to lower its costs at the same rate or faster than this selling price erosion, and to introduce new cost-efficient products with higher prices in a timely manner, as well as manage costs related to its products and operations generally, this will have a material adverse effect on its business and results of operations, particularly its profitability.

Gold Lion Group relies primarily on its distributors for marketing and sale of its products at the provincial and local levels and for after-sales support of its products. Because Gold Lion Group has limited influence over its distributors, it cannot be certain that their marketing and after-sale support of its products will be adequate to meet Gold Lion Group's sales requirements and to protect Gold Lion Group's brand and reputation.

Gold Lion Group now has distributors and after-sales service centers at the national level, provincial level and municipal level in 31 provinces in China. Gold Lion Group grants its distributors the right to use its brand name and logo when they market Gold Lion Group's products within their respective sales territories or channels and when they provide after-sales support to Gold Lion Group's end-user customers. However, Gold Lion Group's contractual arrangements with its distributors do not provide Gold Lion Group with control over their everyday business activities, and one or more of its distributors may engage in activities that are prohibited under Gold Lion Group's contractual arrangements with them, that violate Peoples' Republic of China ("PRC") laws and regulations governing the mobile handset industry or other PRC laws and regulations generally, or that are otherwise harmful to Gold Lion Group's business or reputation in the industry.

Gold Lion Group maintains inventories of raw materials, components and handsets, and its inventories may decline in value or become obsolete.

The rapid technological change in Gold Lion Group's industry, the short product life cycle of its handsets, its limited forecasting experience and processes, and the competitive nature of its target markets make forecasting Gold Lion Group's future sales and operating results difficult. Gold Lion Group's expense levels are based, in part, on its expectations regarding future sales. In addition, to enable Gold Lion Group to promptly fill orders, it maintains inventories of raw materials, components and handsets. As a result, Gold Lion Group has to commit to considerable costs in advance of anticipated sales. Any significant shortfall of sales may result in Gold Lion Group maintaining higher levels of inventories of raw materials, components, and finished goods than it requires, thereby increasing its risk of inventory obsolescence and corresponding inventory write-downs and write-offs. Gold Lion Group cannot guarantee that such write-downs will be adequate to cover all losses resulting from inventory obsolescence.

Gold Lion Group plans to market its products to countries outside of China, which may subject it to various economic, political, regulatory, legal and foreign exchange risks.

Gold Lion Group currently sells substantially all of its products in China. Gold Lion Group also plans to selectively enter into markets outside China where it identifies an opportunity to sell differentiated products and where it believes it will be able to realize a reasonable return on investment. The marketing, distribution and sale of its mobile handsets overseas exposes Gold Lion Group to a number of risks, including:

- fluctuations in currency exchange rates of the U.S. dollar and other foreign currencies against the Renminbi;
- difficulty in engaging and retaining distributors and agents who are knowledgeable about, and can function effectively in, overseas markets;
- difficulty in designing products that are compatible with communications and product standards in foreign countries, and in attaining the required certifications for those products;
- longer accounts receivable collection periods and greater difficulty in accounts receivable collection;
- increased costs associated with maintaining marketing and sales activities in various countries;
- difficulty and costs relating to compliance with unexpected changes in regulatory requirements and different commercial and legal requirements in the jurisdictions in which Gold Lion Group offers its products;
- inability to obtain, maintain or enforce intellectual property rights; and
- changes to import and export regulations, including quotas, tariffs and other trade barriers, delays or difficulties in obtaining export and import licenses, potential foreign exchange controls and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions.

If Gold Lion Group is unable to effectively manage these risks, its ability to conduct or expand its business abroad would be impaired; and this may in turn have a material adverse effect on Gold Lion Group's business, financial condition, results of operations, and prospects.

Gold Lion Group's operating results are difficult to predict and may fluctuate significantly from period to period in the future.

Gold Lion Group's operating results are difficult to predict and may fluctuate significantly from period to period based on a number of factors such as the launch of new products in a given period, the seasonality of its mobile handset sales, the short life-cycle of any given handset model due to rapid technological advances, a possible deterioration of economic conditions in China, and potential changes to the regulation of the mobile handset industry in China. As a result, you may not be able to rely on period-to-period comparisons of Gold Lion Group's operating results as an indication of its future performance. If its revenues for a particular period are lower than Gold Lion Group expects, it may be unable to reduce its fixed costs and operating expenses for that period by a corresponding amount, which would negatively impact its operating results for that period relative to its operating results for other periods.

Gold Lion Group has not applied for patents or registered copyrights for most of its intellectual property; and its failure to adequately protect its intellectual property rights may undermine its competitive position. In addition, litigation to protect Gold Lion Group's intellectual property rights may be costly.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Gold Lion Group relies primarily on trade secrets and other contractual restrictions to protect its intellectual property. Gold Lion Group has not applied for patents or registered copyrights in China for most of its inventions, original works of authorship, developments, and improvements relating to the mobile handsets it produces. The actions Gold Lion Group has taken to protect its intellectual property rights may not be adequate to provide it with meaningful protection or commercial advantage. As a result, third parties may use the technologies that it has developed and compete with Gold Lion Group, which could have a material adverse effect on its business, financial condition and operating results.

In addition, policing unauthorized use of proprietary technology can be difficult and expensive. Litigation may be necessary to enforce Gold Lion Group's intellectual property rights and the outcome of any such litigation may not be in Gold Lion Group's favor. Given the relative unpredictability of China's legal system and potential difficulties in enforcing a court judgment in China, there is no guarantee that Gold Lion Group would be able to halt the unauthorized use of its intellectual property through litigation in a timely manner.

Furthermore, any such litigation may be costly and may divert management attention away from Gold Lion Group's business and cause it to expend significant resources. An adverse determination in any such litigation will impair Gold Lion Group's intellectual property rights and may harm its business, prospects and reputation. In addition, Gold Lion Group has no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent it is unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse impact on Gold Lion Group's business, financial condition and results of operations.

Gold Lion Group may be exposed to infringement or misappropriation claims by third parties which, if determined adversely against it, could disrupt its business and subject it to significant liability to third parties, as well as have a material adverse effect on its financial condition and results of operations.

Gold Lion Group's success depends, in large part, on its ability to use and develop its technology, know-how and product designs without infringing upon the intellectual property rights of third parties.

Gold Lion Group's products include increasingly complex technology and, as the amount of such technologies and the number of parties claiming rights continue to increase; the possibility of alleged infringement and related intellectual property claims against it continues to rise. The holders of patents and other intellectual property rights potentially relevant to Gold Lion Group's product offerings may be unknown to Gold Lion Group, or may otherwise make it difficult for Gold Lion Group to acquire a license on commercially acceptable terms. There may also be technologies licensed to and relied on by Gold Lion Group that are subject to infringement or other corresponding allegations or claims by others which could damage its ability to rely on such technologies. In addition, although Gold Lion Group endeavors to ensure that companies that work with it possess appropriate intellectual property rights or licenses, Gold Lion Group cannot fully avoid the risks of intellectual property rights infringement created by suppliers of components used in its products or by companies with which it works in cooperative research and development activities. Since technology standards, including those used and relied on by Gold Lion Group, typically involve intellectual property rights, Gold Lion Group cannot fully avoid risks of a claim for infringement of such rights due to its reliance on such standards. Gold Lion Group believes that the number of third parties declaring their intellectual property to be relevant to these standards - for example, those standards related to 3G mobile communication technologies as well as other advanced mobile communications standards - is increasing, which may increase the likelihood that Gold Lion Group will be subject to such claims in the future. While Gold Lion Group believes that any such intellectual property rights declared and found to be essential to a given standard carry with them an obligation to be licensed on fair, reasonable and non-discriminatory terms, not all intellectual property owners agree on the meaning of that obligation and, thus, costly and time-consuming litigation over such issues may result in the future.

As Gold Lion Group continues to market and sell its products throughout China, and as litigation becomes more common in China, Gold Lion Group may face a higher risk of becoming subject to claims for intellectual property infringement. While Gold Lion Group has not, to date, become subject to these types of claims, it is possible that it may, in the future, become subject to such intellectual property infringement claims. Regardless of whether such claims have merit or are decided in its favor, any such litigation could have a negative impact on Gold Lion Group brand, reputation and ability to conduct its business and sell some or all of its products.

Gold Lion Group's sales and profitability depend on the continued growth of the mobile telecommunications industry, especially in China, and if the mobile telecommunications industry does not grow as Gold Lion Group expects or

grows at a slower speed than Gold Lion Group expects, its sales and profitability may be materially adversely affected.

Gold Lion Group derives substantially all of its revenues from sales of mobile handsets in China. The continued development of its business depends, in large part, on continued growth in the mobile telecommunications industry, especially in China, in terms of the number of existing mobile subscribers who upgrade or replace their existing mobile handsets, the number of new subscribers, and increased usage. Although China's wireless telecommunication industry has grown rapidly in the past, and although China government has granted 3G licenses to operators, the wireless telecommunication industry may not continue to grow at the same growth rate in the future or to grow at all.

Furthermore, Gold Lion Group's sales and profitability are also affected by the extent to which there is increasing demand for, and development of, value-added services, leading to opportunities for it to successfully market mobile handsets that feature those services. To a certain extent, Gold Lion Group is dependent on third-party mobile telecommunication operators to successfully introduce these value-added services that encourage end users to upgrade or replace their mobile handsets. For instance, mobile telecommunication operators in China are upgrading their networks to offer 3G wireless telecommunication services, which will lead to increased demand for enhanced wireless value-added services and, therefore, increased demand for mobile handsets with more advanced technologies in China. Therefore, if mobile telecommunication operators are not successful in their attempts to introduce new services, increase the number of subscribers, stimulate increased usage and drive replacement sales, its business and results of operations could be materially adversely affected.

These developments in its industry are, to a large extent, outside of Gold Lion Group's control; and any reduced demand for wireless voice and data services, any other downturn, or other adverse changes in China's wireless telecommunication industry could severely harm its business.

Changes in the regulatory environment for telecommunications systems and services, especially in China, could negatively impact Gold Lion Group's business.

The telecommunications industry in China is heavily regulated, and regulatory changes may affect both Gold Lion Group and its customers. For example, changes in regulations that impose more stringent standards for the production of mobile handsets could adversely affect Gold Lion Group business. Similarly, tariff regulations that affect the pricing of new services offered by mobile telecommunication operators could also affect their ability to invest in network infrastructure, which in turn could affect the sales of Gold Lion Group's mobile handsets. License fees, environmental, health and safety, privacy and other regulatory changes may increase costs and restrict operations of mobile telecommunication network operators and service providers. The indirect impact of such changes could affect Gold Lion Group's business adversely even though the specific regulations may not directly apply to it or its products.

China Ministry of Industry and Information Technology ("MIIT") has broad discretion and authority to regulate all aspects of the telecommunications and information technology industries in China, including managing spectrum, setting mobile handset specifications and standards, approving the adoption of new technologies such as 3G, and drafting laws and regulations. MIIT also determines the forms and types of services that may be offered by telecommunication companies to the public, the rates that are charged to subscribers for those services, and the content of material available in China over wireless services, including Internet content. In addition, China's telecommunication regulatory framework is still at a relatively early stage of development, and prone to directional shifts and major structural changes. The PRC government is in the process of drafting a national telecommunication law, which may include new legislation governing the mobile handset industry. If MIIT sets standards with which Gold Lion Group is unable to comply or which would render Gold Lion Group's products uncompetitive, its ability to sell products could be severely limited, resulting in substantial harm to Gold Lion Group's operations.

Gold Lion Group depends on its key personnel, and its business and growth may be severely disrupted if it loses their services. Gold Lion Group may also have difficulty attracting and retaining qualified management and research and development personnel.

Gold Lion Group's future success depends substantially on the continued services of its key personnel. Gold Lion Group relies on key personnel's experience in the mobile handset manufacturing industry, in similar business operations, in sales and marketing, and on their relationships with Gold Lion Group's shareholders, customers, and suppliers. If Gold Lion Group loses the services of one or more of these key personnel, it may not be able to replace them readily, if at all, with suitable or qualified candidates, and may incur additional expenses to recruit and retain new officers, which could severely disrupt its business and growth.

In addition, if any of these key personnel joins a competitor or forms a competing company, Gold Lion Group may lose some of its customers. Gold Lion Group has entered into employment agreements with each of these key personnel, which contain confidentiality and non-competition provisions. However, if any disputes arise between these key personnel and Gold Lion Group, it is not clear what the court decisions will be and the extent to which these court decisions could be enforced in China, where all of these key personnel reside and hold some of their assets. Furthermore, as Gold Lion Group expects to continue to expand its operations and develop new products, Gold Lion Group will need to continue attracting and retaining experienced management and key research and development personnel.

Competition for management and research and development personnel in the mobile handset market in China is intense, and the availability of suitable and qualified candidates is limited. In particular, Gold Lion Group competes to attract and retain qualified research and development personnel with other mobile handset manufacturers, universities and research institutions. Competition for these individuals could cause Gold Lion Group to offer higher compensation and other benefits in order to attract and retain them, which could have a material adverse effect on Gold Lion Group's financial condition and results of operations. Gold Lion Group may also be unable to attract or retain the personnel necessary to achieve its business objectives, and any failure in this regard could severely disrupt its business and growth.

Fluctuations in exchange rates could adversely affect Gold Lion Group's business.

Because substantially all of its earnings are denominated in Renminbi, any appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect Gold Lion Group's balance sheet position and financial results reported in U.S. dollar terms without giving effect to any underlying change in its business or results of operations. In addition, fluctuations in the exchange rate between the U.S. dollar and the Renminbi would affect the relative purchasing power of Gold Lion Group's U.S. dollar denominated cash assets and the Renminbi value of Gold Lion Group's U.S. dollar denominated bank borrowings. Fluctuations in the exchange rate will also affect the relative value of any dividend Gold Lion Group may issue that will be exchanged into U.S. dollars, and will affect the earnings from and value of any U.S. dollar-denominated investments it makes in the future.

Gold Lion Group's competitive position could decline if it is unable to obtain additional financing to acquire businesses or technologies that are strategic for its success, or otherwise execute its business strategy.

Gold Lion Group believes that its current cash will be sufficient to fund its working capital and capital expenditure requirements for at least the next twelve months. However, Gold Lion Group may need to raise additional funds to support more rapid expansion, respond to competitive pressures, acquire complementary businesses or technologies or respond to unanticipated requirements. Gold Lion Group cannot assure you that additional funding will be available to it in amounts or on terms acceptable to Gold Lion Group. If sufficient funds are not available or are not available on acceptable terms, Gold Lion Group's ability to fund its expansion, take advantage of acquisition opportunities, develop or enhance its services or products, or otherwise respond to competitive pressures would be significantly limited. If appropriate opportunities arise, Gold Lion Group intends to acquire businesses; technologies, services or products that it believes are strategic.

Risks Related to Gold Lion's Industry

If Gold Lion Group cannot keep pace with market changes and produce mobile phones with new technologies and features in a timely and cost-efficient manner to meet its customers' requirements and preferences, the growth and success of its business will be materially adversely affected.

The mobile handset market in China is characterized by changing consumer preferences with respect to style and functionality, increasing demand for new and advanced technologies and features, rapid product obsolescence and price erosion, evolving industry standards, intense competition and wide fluctuations in product supply and demand. If Gold Lion Group cannot keep pace with market changes and produce new mobile handsets in a timely and cost-efficient manner to meet its customers' requirements and preferences, the growth and success of its business will be materially adversely affected.

Gold Lion Group experiences intensive competition from its Electronics Manufacturing Service ("EMS") competitors; Gold Lion Group's failure to maintain its relationship with clients may have material adverse impact on its business and profitability.

In recent years, more and more EMS providers have invested heavily in the northern part of China and particularly in the Bo Hai area where Tianjin city is located. Gold Lion Group's OEM customers are also giving more orders to other EMS providers to balance their need and reduce their risk. Gold Lion Group will attempt to provide better services and higher quality products to attract more customers and reduce its risk from fierce competition.

Competition in mobile phone manufacture and sales is intense. Gold Lion Group's failure to maintain or improve its market position and respond successfully to changes in the competitive landscape may have a material adverse impact on its business and results of operations.

The mobile handset manufacturing industry in China is intensely competitive. Industry participants compete with each other mainly on the basis of the breadth and depth of their product portfolios, price, operational and manufacturing efficiency, technical performance, product features, quality, customer support and brand recognition. Gold Lion Group faces significant competition from a number of competitors, including domestic mobile handset producers such as Bird Ningbo Co., Ltd, Haier Telecom Co. Ltd., , Konka Group Co., Ltd, Lenovo Group Limited, and TCL Communication Technology Holdings Limited,. and a number of large multinational mobile handset producers, such as LG Electronics Ltd., Motorola Inc., Nokia Corporation, Samsung Electronics Co., Ltd., and Sony Ericsson Mobile Communications (China) Co., Ltd.. Many of Gold Lion Group's competitors have longer operating histories, greater name recognition, significantly larger market shares, access to larger customer bases and significantly greater economies of scale and financial, sales and marketing, manufacturing, distribution, technical and other resources than Gold Lion Group does. Some of these competitors have used, and will probably continue to use, more aggressive pricing strategies, greater amounts of sales incentives and subsidies for distributors, retailers and customers, more successful design approaches, and more advanced technologies. In addition, some competitors have chosen to focus on building products based on commercially available components, which may enable them to introduce these products faster and with lower levels of research and development spending than Gold Lion Group. Furthermore, consolidation among the industry participants in China may potentially result in stronger competitors that are better able to compete as end-to-end suppliers as well as competitors who are more specialized in particular areas and geographic markets. This could have a material adverse effect on Gold Lion Group's business, financial condition, results of operations and prospects.

Gold Lion Group may be unable to manage rapid growth and a changing operating environment, which could adversely affect its ability to serve its customers and could harm its business.

Gold Lion Group has experienced rapid growth over the last few years. Gold Lion Group has limited operational, administrative and financial resources, which may be inadequate to sustain its current growth rate. If Gold Lion Group is unable to manage its growth effectively, the quality of its solutions could deteriorate and its business may suffer. As its customer base increases and it enters new end-markets, Gold Lion Group will need to:

- increase its investments in personnel, research and development capabilities, facilities and other operational areas;
- continue training, motivating and retaining its existing employees, and attract and integrate new qualified employees;
 - develop and improve its operational, financial, accounting and other internal systems and controls; and
 - take enhanced measures to protect any proprietary technology or technological capability it develops.

Any failure to manage Gold Lion Group's growth successfully could distract management's attention and result in its failure to serve its customers and harm its business.

Risks Related to Doing Business in China

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for Gold Lion Group's products and materially adversely affect its competitive position.

Gold Lion Group conducts substantially all of its operations and generates most of its revenues in China. Accordingly, its business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;
- the early stage of development of the market-oriented sector of the economy;
 - the rapid growth rate;
- the higher level of control over foreign exchange; and
 - the allocation of resources.

While the PRC economy has grown significantly since the late 1970s, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on Gold Lion Group. For example, Gold Lion Group's financial condition and results of operations may be adversely affected by government control over the telecommunications industry, capital investments or changes in tax regulations that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and imposing policies that impact particular industries or companies in different ways. For example, efforts by the PRC government to slow the pace of growth of the PRC economy could result in decreased capital expenditure by mobile telecommunication network operators, which in turn could reduce demand for its products.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of mobile communications investments and expenditures in China, which in turn could lead to a reduction in demand for Gold Lion Group's products and consequently have a material adverse effect on its business and prospects. In particular, any adverse change in the PRC government's policies towards the mobile communications industry may have a material adverse effect on Gold Lion Group's business.

Gold Lion may have difficulty establishing adequate management, legal and financial controls in the PRC.

Most PRC companies historically have been less focused on establishing Western style management and financial reporting concepts and practices, as well as modern banking, computer and other internal control systems, than companies in the U.S. and certain other Western countries. Gold Lion may have difficulty in hiring and retaining a sufficient number of qualified internal control employees to work in the PRC. As a result of these factors, Gold Lion may experience difficulty in establishing management, legal and financial controls, collecting financial data, preparing financial statements, books of account and corporate records, and instituting business practices that meet Western standards.

Section 404 of the Sarbanes-Oxley Act of 2002 will require the Registrant to document and test its internal controls over financial reporting in future periods. Any delays or difficulty in satisfying these requirements could adversely affect its future results of operations and the Registrant's stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 will require the Registrant to document and test the effectiveness of Gold Lion's internal control over financial reporting in accordance with an established internal control framework and to report on its conclusion as to the effectiveness of such internal controls. It may cost more than it expects to comply with these control and procedure-related requirements.

The Registrant may discover in the future areas of internal control that need improvement, particularly with respect to Gold Lion Group or other businesses that it may acquire. The Registrant cannot be certain that any remedial measures it takes will provide adequate internal control over financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could harm the Registrant's operating results or cause it to fail to meet its reporting obligations. If the Registrant is unable to conclude that it has effective internal control over financial reporting, or if its independent auditors are unable to provide it with an unqualified report regarding the effectiveness of its internal control over financial reporting in future periods as required by Section 404, investors could lose confidence in the reliability of its financial statements, which could result in a decrease in the value of the Registrant's common stock. In addition, failure to comply with Section 404 could potentially subject the Registrant to sanctions or investigations by the SEC or other regulatory authorities.

Description of Business

Gold Lion's wholly owned subsidiary, Jiangsu Leimone, owns 51.03% of TCB Digital. TCB Digital, a subsidiary of Gold Lion, is a well established high technology enterprise engaging in electronic and telecommunication product design, development, and manufacturing capability and process. TCB Digital started its business in 1999 and was originally set up as an Electronic Manufacturing Service (EMS) factory for mobile phone vendors. TCB Digital was Motorola's first independent outsourcing manufacturing vendor responsible for producing Motorola mobile phones in China. Moreover, TCB Digital was the first EMS factory in China receiving Motorola's International Quality Product and Qualification Certificate. Currently TCB Digital is headquartered in Tianjin, China. TCB Digital has two main business operations, one providing Electronic Manufacturing Service for OEM (Original Equipment Manufacturer) customers and the other designing and producing mobile phone products.

TCB Digital offers high quality and comprehensive EMS to both domestic and global customers including Samsung, Tianyu, CCT, Palm, Danaher, Spreadtrum and SK Telecom. Major products manufactured by TCB Digital include mobile phones, wireless telecommunication modules, digital cameras, cable TV set-up boxes, and GPS equipment. In addition, TCB Digital develops various state-of-art feature mobile phones and Smartphones based on TD-SCDMA, GSM, WCDMA and CDMA technologies. TCB Digital markets its mobile phone products through retail distributors in China and also supply major operator customers such as China Mobile (CMCC), China UNICOM, and China Telecom with various operator customized 2.5G or 3G mobile phones.

Competitive Strengths

TCB Digital believes its competitive strengths include:

Experienced Management Team & Strong Technology Experts

TCB Digital believes it has a well established and efficient human resource strategy. Under this strategy, TCB Digital is able to develop and maintain a good management team, strong technical professionals, and highly skilled manufacturing operators. TCB Digital believes the combination of TCB Digital's internal development program and its hiring program has been able to provide it adequate and stable staffing for various levels of technical and managerial requirements. TCB Digital has a management team with expertise in manufacturing, product development, and marketing. Many managers have working experience and training in leading firms in the industry such as Motorola, BenQ, Samsung, Pemstar, Mitsum, and Foxcomm. With respect to the manufacturing, TCB Digital believes it has been able to develop and maintain a highly efficient manufacturing operator team with strong discipline. Furthermore, TCB Digital believes it has a strong product research and development team that has demonstrated talent in developing state-of-art mobile devices that can meet market needs.

Location Advantage

TCB Digital is located in Tianjin, China, which is located in the middle of Bo Hai Electronic Development Base. The China central government has recently established the "Bo Hai Economic Zone" which has been divided into several regions with specific development directions. Bo Hai Electronic Development Base is one of these newly identified regions, which has a well-established transportation system and strong industrial foundation.

Advanced manufacturing facility & Process

TCB Digital has 10 SMT (Surface Mounting Technology) production lines, 10 assembly and testing lines, and over \$2 million worth of advanced testing instruments to meet customers' different levels of technical requirements. TCB Digital's SMT production lines can produce over 500,000 PCBA (PC board assemblies) per month or about 6 million

PCBA annually. In addition, TCB Digital's assembly line production capacity is about 800K units per month or around 9.6 million annually.

Excellent quality control system & workflow

TCB Digital has been implementing high-quality quality control systems and workflow systems to help ensure that it provides high-quality products to its customers. TCB Digital has received ISO 9000, ISO 14000, and QSH 18000 quality-related certificates

Strong Marketing Capability

TCB Digital has a sales and marketing team that allows it to market and promote its mobile phones and related products in both China and markets outside China.

Strategy

TCB Digital's strategy is to strengthen its position as an innovative mobile phone producer and as an Electronic Manufacturing Service provider to customers in China and overseas.

Strengthen design and development capabilities in mobile phones

One of TCB Digital's main business strategies is to focus on developing mobile phones based on GSM, CDMA, and TD-SCDMA core technologies for both China and overseas markets. TCB Digital is able to design, develop, and manufacture innovative GSM, CDMA and TD-SCDMA mobile phones by leveraging its own resources and facilities. To meet the changing needs of its customers and to maintain the competitive advantage of its products, TCB Digital intends to continue to improve and strengthen its development and design capabilities. TCB Digital plans to continue investing resources to maintain an experienced and skilled design team to preserve competitiveness within a frequently changing and challenging industry landscape.

Enhance strong customer relationships into new opportunities.

TCB Digital will continue to focus on refining its EMS processes, maintaining high quality control processes, adding new manufacturing technology, and enhancing its highly efficient operations team. In addition, TCB Digital will continue to monitor market movement, including customers' requirements, adjusting its business model to better cope with these changes while maintaining profit margins. TCB Digital will attempt to increase its future revenues and profits by enhancing its strong customer relationships and expanding the range of services it offers to its customers. TCB Digital believes that growing with its clients will enable it to promote its reputation and expand its geographic presence.

Further expand market and sales channel

Currently TCB Digital has mobile phone distributors and after-sales service centers at the national level, provincial level and municipal level in 27 provinces in China. Those distributors are capable of covering approximately 5% of all local distributors and 10% of all retail stores in China. As the market potential in tier 3 and tier 4 cities and towns, with population from 2,000,000 down to 600,000, in China has been growing significantly, TCB Digital intends to invest in further expansion of its marketing and sales channels in these smaller cities and rural areas.

Products and Technology

Products

Gold Lion's TCB Digital subsidiary has developed and produced GSM and CDMA mobile phones, wireless data modules and GPS equipment since 2004, and Gold Lion's JS Leimone subsidiary has produced this type of electronic equipment since 2008. TCB Digital has customized and assembled two models of Smartphones for Palm Inc. for the China market. One model was customized, with applications developed by TCB Digital under Palm's development and supervision guidelines, specifically for China Mobile Communications Corporation (CMCC); and this model has successfully entered into CMCC's sales channels. In 2007, TCB Digital collaborated with SK-Telecom and jointly developed a dual mode GSM-CDMA Smartphone for China UNICOM. This dual mode GSM-CDMA Smartphone was designed and manufactured by TCB Digital and marketed under the SK-Telecom brand name.

In 2008, TCB Digital developed and launched four models of 2.5G GSM mobile phones for the China market. These GSM mobile phones have customary voice features plus data service functions such as web browsing, short messaging, multimedia messaging, multimedia player, games and more. TCB Digital has also developed a 2.5G GSM

mobile phone that embeds China's "CMMB" standard for mobile digital TV, and this phone uses Google's Android operating system.

Technology

TCB Digital is located in Tianjin City. TCB Digital manufactures digital communication and consumer electronic products with 10 SMT (Surface Mount Technology) lines and 10 assembly and test lines. Jiangsu Leimone is located in the city of Nantong, Jiangsu Province. Jiangsu Leimone has 2 SMT lines and 2 assembly and test lines. TCB Digital produced approximately 5.3 million sets of products, including single and multiple PCBAs and also including fully packaged products, in 2006, about 5.5 million units in 2007, and 5.2 million units in 2008. TCB Digital periodically upgrades its SMT facilities to further improve efficiency and quality. In 2008, its first year of production, Jiangsu Leimone produced 0.8 million units of products.

